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SUBJECT: Croatia Top Reformer, but Still Regional Laggard

11. SUMMARY: The World Bank's "Doing Business 2008" report lists Croatia as the top reformer in the region and second worldwide for improving the ease of doing business during 2006-07. Croatia reformed in four of the ten areas covered in the study, and moved from 124th to 97th place in the overall ranking. Despite improvements, however, Croatia's overall ranking remains below all other Central and Eastern European countries except Bosnia and Herzegovina. END SUMMARY.

12. According to the World Bank's "Doing Business 2008" Croatia has become a reform leader, simplifying procedures for starting a business, registering property, getting credit and closing a business. The report ranks Croatia first in the region and second in the world for number and impact of reforms. The driver behind these measures was the creation of the so-called "one-stop-shop" for business information, HITRO.HR (which has actually been in existence for several years).

13. Sanja Madzarevic-Sujster, senior country economist at the World Bank Croatia Country Office, told ECON OFF that the WB's assessment was based partially on investor reaction to HITRO.HR, which has been positive. She also said Croatia is now seeing the results of property registration reforms begun in 2000. Two years ago, registering property in Zagreb took nearly three years; it now takes about six months. Madzarevic-Sujster said that property can be registered in a week in some areas of the country, but a backlog continues to slow the process in Zagreb. The GOC established a unified registry to record all claims against movable property in one place and changed the process for enforcing contracts to allow notaries to handle non-contestable cases rather than requiring a judge's involvement. The establishment of a private credit bureau (HROK) has also made credit more widely available. In the final area of reform, the GOC amended its insolvency law to introduce professional requirements for bankruptcy trustees and shortened the timeline for bankruptcy procedures.

14. With these reforms, Croatia moved from 124th to 97th in the overall ranking for ease of doing business. Despite this rise, however, Croatia remains behind all other countries in the region except Bosnia and Herzegovina. Madzarevic-Sujster explained that one reason Croatia ranks behind some countries that may seem less amenable to businesses is that the Doing Business study looks only at administrative burden and fees in a country's capital city. It does not consider political or macro-economic stability. She also listed several areas for further reform in Croatia, including licensing procedures, protection of investors, corporate governance, public administration and the judiciary, and flexibility of the labor market. She said particularly in this pre-election period she fears the government will slow or reverse its pursuit of reforms, for example, by maintaining or increasing social benefits or propping up loss makers like the railways and shipyards. High public spending threatens hard-won stability, and slow pace of administrative and judicial reforms has already hurt private investment in the country. She added a slowdown in growth is likely, demanding all the more cushion in labor flexibility.

15. COMMENT: Despite Croatia's low overall ranking in the report,

being labeled a top reformer was generally welcome news for the current government only two months before a general election. Critics maintain that HITRO.HR and other measures are more image than substance; nevertheless, the business community here is in agreement that things are going in the right direction, albeit not as quickly as most would like.

BRADTKE